SOUTH CHINA HOLDINGS COMPANY LIMITED
南華集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 00413)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2021

GROUP RESULTS

The board of directors (the "Board" or the "Directors") of South China Holdings Company Limited (the "Company") is pleased to announce the consolidated results of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2021 together with comparative figures for the last financial year as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Note	**2021** **_HK$'000_**	2020 *HK$'000*
Revenue	*3*	**4,724,909**	4,086,245
Cost of sales		**(4,189,494)**	(3,555,332)
Gross profit		**535,415**	530,913
Other income and gains, net		**126,899**	78,251
Net fair value gain on investment properties inclusive of investment properties presented as non-current assets classified as held for sale		**128,328**	153,842
Selling and distribution expenses		**(89,135)**	(86,304)
Administrative expenses		**(445,268)**	(368,126)
Profit from operations	*3&4*	**256,239**	308,576

CONSOLIDATED STATEMENT OF PROFIT OR LOSS (continued)

	Note	**2021** **HK$'000**	2020 HK$'000
Finance costs		**(169,628)**	(192,949)
Share of losses of associates		**(313)**	(611)
Share of losses of joint ventures		**(5)**	(25)
Profit before tax		**86,293**	114,991
Income tax	*5*	**(53,217)**	(49,609)
Profit for the year		**33,076**	65,382
Attributable to:			
Equity shareholders of the Company		**30,852**	69,775
Non-controlling interests		**2,224**	(4,393)
		33,076	65,382
Earnings per share	*6*		
Basic		**HK0.2 cents**	HK0.5 cents
Diluted		**HK0.2 cents**	HK0.5 cents

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	2021 *HK$'000*	2020 *HK$'000*
Profit for the year	**33,076**	65,382
Other comprehensive income (after tax and reclassification adjustments)		
Item that will not be reclassified to profit or loss:		
Surplus on revaluation of property, plant and equipment and construction in progress upon transfer to investment properties	**4,640**	–
Item that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of financial statements of operations outside Hong Kong	**182,279**	434,267
Other comprehensive income for the year	**186,919**	434,267
Total comprehensive income for the year	**219,995**	499,649
Attributable to:		
Equity shareholders of the Company	**203,782**	473,468
Non-controlling interests	**16,213**	26,181
	219,995	499,649

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	**As at 31 December 2021** *HK$'000*	As at 31 December 2020 *HK$'000*
NON-CURRENT ASSETS			
Property, plant and equipment	*8*	**648,292**	654,276
Investment properties	*8*	**10,231,393**	9,975,013
Construction in progress	*8*	**178**	159,463
Investments in associates		**676**	989
Investments in joint ventures		**18**	74
Bearer plants		**25,891**	30,821
Other non-current assets		**148,638**	143,053
Total non-current assets		**11,055,086**	10,963,689
CURRENT ASSETS			
Inventories		**1,324,303**	1,339,113
Properties under development		**261,186**	233,895
Trade receivables	*9*	**841,769**	629,276
Prepayments, deposits and other receivables		**1,215,077**	1,067,459
Financial assets measured at fair value through profit or loss		**6,541**	5,846
Amounts due from associates		**4,977**	6,773
Amounts due from related parties		**8,343**	22,970
Tax recoverables		**13**	871
Cash and bank balances		**622,497**	591,361
		4,284,706	3,897,564
Non-current assets classified as held for sale	*8*	**275,198**	–
Total current assets		**4,559,904**	3,897,564

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

	Note	As at 31 December 2021 HK$'000	As at 31 December 2020 HK$'000
CURRENT LIABILITIES			
Trade payables	*10*	**1,031,431**	958,358
Other payables and accruals		**688,407**	634,432
Interest-bearing bank borrowings		**2,040,470**	1,969,832
Lease liabilities		**77,303**	69,722
Amounts due to non-controlling shareholders of subsidiaries		**10,973**	10,314
Tax payables		**109,291**	100,999
Total current liabilities		**3,957,875**	3,743,657
NET CURRENT ASSETS		**602,029**	153,907
TOTAL ASSETS LESS CURRENT LIABILITIES		**11,657,115**	11,117,596
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings		**2,482,400**	2,262,811
Lease liabilities		**393,325**	379,411
Amounts due to non-controlling shareholders of subsidiaries		**7,941**	7,941
Amounts due to related parties		**604,405**	557,639
Other non-current liabilities		**59,801**	67,028
Deferred tax liabilities		**1,211,648**	1,159,266
Total non-current liabilities		**4,759,520**	4,434,096
NET ASSETS		**6,897,595**	6,683,500
CAPITAL AND RESERVES			
Share capital	*11*	**134,413**	134,560
Reserves		**6,419,218**	6,221,189
Total equity attributable to equity shareholders of the Company		**6,553,631**	6,355,749
Non-controlling interests		**343,964**	327,751
TOTAL EQUITY		**6,897,595**	6,683,500

NOTES TO THE ANNOUNCEMENT

1. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION

The annual results set out in the announcement are extracted from the Group's consolidated financial statements for the year ended 31 December 2021.

The accounting policies and basis of preparation adopted in the financial statements are consistent with those adopted in the Group's audited 2020 annual financial statements except for changes in accounting policies as a result of the adoption of new and revised Hong Kong Financial Reporting Standards ("HKFRSs") as set out in note 2.

2. CHANGES IN ACCOUNTING POLICIES

The Group has applied the following amendments to HKFRSs issued by the HKICPA to the financial statements for the current accounting period:

- Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16, *Interest rate benchmark reform — phase 2*
- Amendment to HKFRS 16, *Covid-19-Related Rent Concessions beyond 30 June 2021*

Other than the amendment to HKFRS 16, the Group has not applied any new standard or interpretation that is not yet effective for the current accounting period. Impacts of the adoption of the amended HKFRSs are discussed below:

Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16, *Interest rate benchmark reform — phase 2*

The amendments provide targeted reliefs from (i) accounting for changes in the basis for determining contractual cash flows of financial assets, financial liabilities and lease liabilities as modifications, and (ii) discontinuing hedge accounting when an interest rate benchmark is replaced by an alternative benchmark rate as a result of the reform of interbank offered rates ("IBOR reform"). The amendments do not have an impact on the consolidated financial statements as the Group does not have contracts that are indexed to benchmark interest rates which are subject to the IBOR reform.

Amendment to HKFRS 16, *Covid-19-Related Rent Concessions beyond 30 June 2021*

The Group previously applied the practical expedient in HKFRS 16 such that as lessee it was not required to assess whether rent concessions occurring as a direct consequence of the COVID-19 pandemic were lease modifications, if the eligibility conditions are met. One of these conditions requires the reduction in lease payments affect only payments originally due on or before a specified time limit. The 2021 amendment extends this time limit from 30 June 2021 to 30 June 2022.

The Group has early adopted the 2021 amendment in this financial year. With the extended time limit, certain rent concessions that were previously ineligible for the practical expedient because of the original time limit, become eligible. Accordingly, these rent concessions, which were previously accounted for as lease modifications, are now accounted for as negative variable lease payments, and are recognised in profit or loss in the period in which the event or condition that triggers those payments. There is no material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented in the consolidated financial statements.

3. REVENUE AND SEGMENTAL INFORMATION

Revenue represents the net invoiced value of goods sold after allowances for returns and trade discounts, sales of properties, the value of services rendered and gross rental income received and receivable from investment properties during the year.

For management purposes, the Group is organised into business units based on their products and services and has four reportable operating segments as follows:

(i) the trading and manufacturing segment is engaged in trading and manufacturing of merchandises including toys, footwear products and leather products;

(ii) the property investment and development segment is engaged in property investment and development;

(iii) the agriculture and forestry segment is engaged in the cultivation of fruit trees and crops, rearing of livestock and aquatic products, forestation and sale of relevant agricultural products; and

(iv) the others segment mainly comprises, principally, the Group's investment holding related management functions.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment results, which is a measure of adjusted profit/(loss) before tax. The adjusted profit/(loss) before tax is measured consistently with the Group's profit before tax except that share of profits and losses of associates and joint ventures and finance costs are excluded from such measurement.

3. REVENUE AND SEGMENTAL INFORMATION (continued)

Business segments

The following tables present revenue and profit for the Group's business segments for the years ended 31 December 2021 and 2020.

	Trading and manufacturing		Property investment and development		Agriculture and forestry		Others		Total	
	2021	2020	**2021**	2020	**2021**	2020	**2021**	2020	**2021**	2020
	HK$'000	HK$'000	***HK$'000***	HK$'000	***HK$'000***	HK$'000	***HK$'000***	HK$'000	***HK$'000***	HK$'000
Segment revenue										
External sales	**4,314,040**	3,223,868	**408,213**	848,954	**2,656**	13,423	**–**	–	**4,724,909**	4,086,245
Segment results	**87,059**	88,389	**233,980**	318,575	**(11,777)**	(27,131)	**(53,023)**	(71,257)	**256,239**	308,576
Reconciliation:										
— Share of losses of associates									**(313)**	(611)
— Share of losses of joint ventures									**(5)**	(25)
— Finance costs									**(169,628)**	(192,949)
Profit before tax									**86,293**	114,991

Geographical segments

Revenue from external customers

	2021	2020
	HK$'000	*HK$'000*
The People's Republic of China ("PRC"), including Hong Kong and Macau	**605,451**	1,064,007
The United States of America	**2,620,073**	1,912,969
Europe	**1,105,047**	777,708
Japan	**12,070**	12,494
Others	**382,268**	319,067
	4,724,909	4,086,245

The revenue information above is based on the destination to which goods and services are delivered.

4. PROFIT FROM OPERATIONS

Profit from operations includes depreciation in respect of the Group's property, plant and equipment (including right-of-use assets) and bearer plants for the year ended 31 December 2021 amounting to approximately HK$135,599,000 (2020: HK$137,947,000).

5. INCOME TAX

Income tax comprises current and deferred taxes.

Hong Kong Profits Tax has been provided at the rate of 16.5% (2020: 16.5%) on the estimated assessable profits arising in Hong Kong during the year.

PRC Corporate Income Tax has been calculated at the rate of 25% (2020: 25%) on estimated assessable profits arising in the PRC.

Deferred tax is provided on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

6. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the profit for the year attributable to equity shareholders of the Company of HK$30,852,000 (2020: HK$69,775,000), and the weighted average number of ordinary shares of 12,982,892,000 (2020: 12,982,892,000) in issue after deducting shares held for the share award scheme and treasury shares.

The calculation of diluted earnings per share is based on the profit for the year attributable to equity shareholders of the Company. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares as used in the basic earnings per share calculation and the weighted average number of ordinary shares assumed to have been issued at no consideration on vesting, and the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

The calculations of basic and diluted earnings per share are based on:

	2021	2020
	HK$'000	*HK$'000*
Earnings		
Profit attributable to equity shareholders of the Company used in the basic and diluted earnings per share calculation	**30,852**	69,775

	Number of shares	
	2021	2020
	'000	*'000*
Shares		
Weighted average number of ordinary shares used in the basic earnings per share calculation	**12,982,892**	12,982,892
Effect of redeemable convertible preference shares	**229,946**	598,898
Effect of shares held for share award scheme	**206,161**	206,161
Weighted average number of ordinary shares used in the diluted earnings per share calculation	**13,418,999**	13,787,951

The Company's share options have no dilution effect for the years ended 31 December 2021 and 2020 because the exercise price of the Company's share options was higher than the average market price of the shares for both years and the share options are therefore anti-dilutive.

7. DIVIDENDS

The Company had not declared or paid any dividend during the year (2020: nil) and the Board did not recommend the payment of a final dividend for the year ended 31 December 2021 (2020: nil).

8. PROPERTY, PLANT AND EQUIPMENT, INVESTMENT PROPERTIES, CONSTRUCTION IN PROGRESS AND NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE

During the year ended 31 December 2021, certain properties of the Group with an aggregated value of approximately HK$161,627,000 and HK$20,573,000 have been transferred from construction in progress and property, plant and equipment respectively to investment properties.

During the year ended 31 December 2021, an investment property of the Group of approximately HK$275,198,000 has been transferred from investment properties to non-current assets classified as held for sale.

During the year ended 31 December 2020, certain properties of the Group with an aggregated value of approximately HK$2,492,540,000 have been transferred from non-current assets classified as held for sale to investment properties.

9. TRADE RECEIVABLES

The Group's trading terms with its customers are mainly on credit with credit periods normally ranging from one to three months depending on a number of factors including trade practice, collection history and location of customers. Each customer has a maximum credit limit.

The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to monitor credit risk. Overdue balances are reviewed regularly by the senior management.

An ageing analysis of trade receivables net of loss allowance as at the end of the reporting period based on invoice date is as follows:

	2021 ***HK$'000***	2020 *HK$'000*
Within 90 days	**766,076**	605,285
91 to 180 days	**67,173**	19,325
181 to 365 days	**5,560**	2,587
Over 365 days	**2,960**	2,079
	841,769	629,276

10. TRADE PAYABLES

An ageing analysis of trade payables as at the end of the reporting period based on invoice date is as follows:

	2021	2020
	HK$'000	*HK$'000*
Within 90 days	**439,149**	718,385
91 to 180 days	**422,708**	145,579
181 to 365 days	**23,329**	24,011
Over 365 days	**146,245**	70,383
	1,031,431	958,358

The trade payables are non-interest-bearing and expected to be settled within one year.

11. SHARE CAPITAL

	2021	2020
	HK$'000	*HK$'000*
Authorised:		
20,000,000,000 (2020: 20,000,000,000) ordinary shares of HK$0.01 each	**200,000**	200,000
3,000,000,000 (2020: 3,000,000,000) redeemable convertible preference shares of HK$0.02 each	**60,000**	60,000
Total authorised capital	**260,000**	260,000
Issued and fully paid:		
13,221,302,172 (2020: 13,221,302,172) ordinary shares of HK$0.01 each	**132,213**	132,213
109,975,631 (2020: 117,350,631) redeemable convertible preference shares of HK$0.02 each (Note)	**2,200**	2,347
Total issued and fully paid capital	**134,413**	134,560

11. **SHARE CAPITAL (continued)**

Movements of issued share capital and share premium were as follows:

	Issued ordinary shares *HK$'000*	**Issued redeemable convertible preference shares** *HK$'000*	**Share premium** *HK$'000*	**Total** *HK$'000*
At 1 January 2020	132,213	7,576	1,691,871	1,831,660
261,462,500 redeemable convertible preference shares redeemed during the year	–	(5,229)	(203,941)	(209,170)
At 31 December 2020 and at 1 January 2021	**132,213**	**2,347**	**1,487,930**	**1,622,490**
7,375,000 redeemable convertible preference shares redeemed during the year	**–**	**(147)**	**(5,753)**	**(5,900)**
At 31 December 2021	**132,213**	**2,200**	**1,482,177**	**1,616,590**

Movements of number of issued shares are as follows:

	Number of issued ordinary shares *'000*	**Number of redeemable convertible preference shares** *'000*
At 1 January 2020	13,221,302	378,813
Redeemed during the year	–	(261,462)
At 31 December 2020 and at 1 January 2021	**13,221,302**	**117,351**
Redeemed during the year	**–**	**(7,375)**
At 31 December 2021	**13,221,302**	**109,976**

Note:

The redeemable convertible preference shares are redeemable at the sole discretion of the Company at any time after the issuance thereof. Holders of the redeemable convertible preference shares shall be entitled to pro-rata share of dividend or distribution declared by the Board, at its discretion, to the ordinary shareholders of the Company. Dividends or distributions payable to the holders of the redeemable convertible preference shares are not cumulative. The redeemable convertible preference shares shall not confer on the holders thereof the right to receive notice of, or to attend and vote at, general meetings of the Company unless a resolution is proposed to vary or abrogate the rights or privileges of the holders of the redeemable convertible preference shares or for winding-up the Company. The redeemable convertible preference shares rank prior to the ordinary shares on distribution of assets on liquidation, winding-up or dissolution of the Company to the extent of the amount equal to the aggregate issue price of the relevant redeemable convertible preference shares. The remaining assets shall belong to and be distributed on a pari passu basis among the holders of the ordinary shares.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL SUMMARY AND KEY PERFORMANCE INDICATORS

The Group recorded revenue of HK$4,725 million (2020: HK$4,086 million) for the year ended 31 December 2021 (the "Year"), representing a 16% increase as compared with 2020. Profit for the year was HK$33 million (2020: HK$65 million). Both revenue and profit for the year are the financial key performance indicators of the Group.

Basic earnings per share attributable to equity shareholders of the Company for the Year was HK0.2 cents (2020: HK0.5 cents).

BUSINESS REVIEW

The principal businesses of the Group include trading and manufacturing, property investment and development and agriculture and forestry.

Trading and Manufacturing

The trading and manufacturing segment mainly comprises (i) OEM production of toys products, (ii) trading of footwear products and (iii) sales of branded ball products. The segment recorded a 34% increase in revenue to HK$4,314 million (2020: HK$3,224 million) and a 1% decrease in operating profit to HK$87.1 million for the Year (2020: HK$88.4 million).

(i) OEM toys production

The OEM toys operation generated revenue of HK$4,129 million for the Year, representing a 33% increase as compared to 2020.

Since COVID-19 pandemic gravely affected the world economy in early 2020, the unemployment rate in the USA was recorded at a lower rate of approximately 5.4% in July 2021 subsequent to the massive vaccination. Economies and market consumption in the USA and other countries have gradually improved and toy orders from key customers of the Group in the USA and other countries have been reinforced.

During the Year, the impact of COVID-19 pandemic on the production costs (including labour and material costs) was significant. Moreover, appreciation of Renminbi ("RMB") (compared to the same period of last year), labour shortage, high raw material costs and shortage of shipping containers further escalated the impact on the production costs. Given the Group is one of the leading manufacturers of toys, whose infrastructure in both quality and cost controls is strong, therefore, it is expected that the Group would be able to further secure its market leading position since its competitors would not be able to monitor the aforesaid issues effectively and efficiently which in turn would lead them be knocked out and would strengthen the bargaining power of the Group with its international customers for securing its operating profits.

(ii) Trading of footwear products

Revenue from the footwear trading operation increased to HK$156 million (2020: HK$91 million) during the Year, The operating profit increased to HK$2.6 million (2020: HK$1.4 million). The sharp increase was mainly due to effective management in gaining competitive edge by achieving effective cost control and diversification of production in such countries as Vietnam, Cambodia and Bangladesh apart from Mainland China, which in turn led this segment to achieve new orders under the challenges attributed by COVID-19 pandemic and US-China trade war.

(iii) Sales of branded ball products

During the Year, revenue from sales of the branded ball products increased by 46% to HK$23.3 million (2020: HK$16.0 million), mainly due to gradual recovery of sports events from the impacts of COVID-19 pandemic. The Group owns a local brand namely "LeeSheng" (利生) in Mainland China, covering a wide range of ball products, e.g. football, basketball, volleyball and etc., and this year is LeeSheng's 100th anniversary. Given the Mainland China's success in summer Olympic Games in Tokyo, the authorities of Mainland China have plans to boost spending of trillions on sports which becomes a driver of economic growth, and it is expected that the business of this sector would share the boosting to a certain extent.

Property Investment and Development

Revenue from the property investment and development segment significantly decreased by 52% to HK$408 million during the Year. It was because last year's revenue included amounts of sales proceeds from properties presold in previous years with ownership transferred to the buyers in early 2020. The operating profit, including a fair value gain on investment properties, decreased by 27% to HK$234.0 million during the Year.

The Group has a property investment portfolio with total gross floor area ("GFA") of approximately 690,000 sq.m. in Mainland China and 280,000 sq.ft. (approximately 26,000 sq.m.) in Hong Kong. The investment properties in Mainland China are mostly in prime locations in Nanjing, Shenyang and Tianjin.

Given the central government's effective control of COVID-19 pandemic on a nation-wide basis, the economy of Mainland China has improved at a faster rate than that of other nations. During the Year, rental income derived from the Group's leasing portfolio in Hong Kong, Nanjing, Shenyang and Tianjin was stable, amounted to HK$233.6 million, representing an increase of approximately 8% as compared to 2020.

Apart from leasing, the Group continues to focus on development of its flag-ship property project in Shenyang, namely Central Square, which is located in one of the prime residential areas where it is right above a subway station. The project has a total GFA of over 500,000 sq.m. and is a mixed-use project with a heavy emphasis on city living and convenience to the residents.

The first phase of Central Square, having GFA of approximately 170,000 sq.m., has been completed with two residential towers and one serviced apartment tower up for sale as well as a retail podium for leasing. Around 55% of the total saleable areas of residential towers and serviced apartment was sold up to date notwithstanding demands for residential properties by the public were affected by COVID-19 pandemic and stringent government policy on residential properties. Given Central Square is located in a prime residential area, the management is cautiously optimistic on its sales and rental contributions in 2022 and onwards. In addition, the development of the second phase is expected to enhance the value and returns of the first phase.

Agriculture and Forestry

Revenue from the agriculture and forestry segment decreased by 80% to HK$2.7 million but operating loss has reduced by 57% to HK$11.8 million during the Year. The value of bearer plants balance decreased from HK$30.8 million as at 31 December 2020 to HK$25.9 million as at 31 December 2021, representing a decrease of 16% which is mainly due to the combined effect of write-off and depreciation.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2021, the Group had a current ratio of 1.2 and a gearing ratio of 36% (31 December 2020: 1.0 and 34%, respectively). The gearing ratio is computed by dividing the Group's total long-term bank borrowings of HK$2,482 million by the Group's equity of HK$6,898 million. The Group's operation and investments continued to be financed by internal resources and bank borrowings.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGES

The Group operates in Hong Kong and Mainland China and is exposed to foreign exchange risk arising from various currency exposures primarily with respect to RMB and United States dollars. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in operations in Mainland China. The Group manages foreign exchange risk by closely monitoring the movements of the foreign currency rates and entering into forward contracts whenever appropriate.

CAPITAL STRUCTURE

Except for the redemption of the redeemable convertible preference shares as detailed in note 11 to this announcement, there was no material change in the Group's capital structure.

PLEDGE OF ASSETS AND CONTINGENT LIABILITIES

During the year ended 31 December 2021, certain indirect wholly-owned subsidiaries of the Company entered into certain bank loan facilities, under which certain investment properties and completed properties for sale were pledged with these banks.

A subsidiary of the Company in Mainland China provided guarantees to certain financial institutions in an aggregate amount of approximately RMB147 million (equivalent to approximately HK$180 million) on behalf of purchasers of property units of the Central Square in relation to which the related premises ownership certificates had not been issued as at 31 December 2021. The said guarantees would be released upon the issuance of the premises ownership certificate to those buyers.

Save as aforesaid, there was no other material change in the Group's pledge of assets and contingent liabilities.

PROSPECTS

With the emergence of Delta and Omicron variant of coronavirus, it is expected that Year 2022 will be full of challenges and uncertainties. Apart from the pandemic, the US-China trade war and RMB appreciation have also casted uncertainties to the business environment. The recent outbreak of the Russia-Ukraine war, on the other hand, leads to currency fluctuations, rising in energy prices and high inflation, which is expected to be a short-term impact.

The management will keep closely monitoring the market situation by using prudent approach in cost control and resources deployment for maintaining its competitiveness and sustainability in the uncertain and challenging environment in the foreseeable short to medium term. Meanwhile, the Group will strive to maintain steady rental income from leasing both in Hong Kong and Mainland China. In the long run, the management is optimistic in exploring and securing business opportunities in Hong Kong and Mainland China, which in turn will continue to generate returns and create value to the Group and its shareholders as a whole.

Trading and Manufacturing

OEM toys production

Given the market uncertainties, the Group will keep controlling its manufacturing costs and expenses by re-engineering actions, including shifting production from Shenzhen and Dongguan (higher labour cost areas) to Guangxi and Vietnam (lower labour cost areas), simplification and consolidation of operational procedures and extending the use of automation for enhancing its competitiveness and sustainability, and provide one-stop integral solutions and product development services by its product development centre to its key customers for enhancing the variety of services for gaining competitive edge over its competitors and reinforcing its industry-acclaimed recognition.

The long-standing customer loyalty and world-class engineering capability of OEM toys operation has contributed to the Group's solid performance, and continuous orders from customers are expected in 2022 and onwards. In addition to securing orders from the Group's long-term loyal customers, new customers are expected to be captured by the Group from its competitors who are knocked out in this critical period.

To lower down the production costs for increasing the Group's competitive edge over its rivals and to lessen the impact from the US-China trade war, the Group will continue to shift its production capacity from Shenzhen and Dongguan to Guangxi and Vietnam. During the Year, two more factories have been in operations in Guangxi, and more production orders will be handled by the factory in Vietnam.

Given the uncertainties posed by the pandemic and the US-China trade war, the Group will keep using prudent and cost-effective strategies to minimise the risks. The Group expects that the production costs will be relatively stable given the currency fluctuation of RMB becomes steady. Foreseeing that the Russia-Ukraine war may bring along a temporary impact on the oil and plastic price, the Group will attempt to fix prices in materials with suppliers for minimising the cost impact.

Property Investment and Development

Property Investment

The progress of implementation of commercialization and transformation of various properties in Mainland China will keep on, including but not limited to the mall in Shenyang, namely Avenue of Stars ("AOS"). For the purposes of improving occupancy rate and rental contribution, the Group is in the progress of transformation of AOS from the original fur-themed shopping mall into a mall anchored by different types of retailers and features for widening choices offered to different customers in different age groups and preferences. The Group has picked out several fashion brands with different target customers to formulate an outlet offering discounts to attract customer flow. On the other hand, the Group is in negotiation with a supermarket providing mid-low priced household products targeting housewives and families. In addition to AOS, the Group is striving to increase the occupancy rate of the retail podium in the Central Square by identifying and soliciting prospective tenants for generating continuous stream of rental income.

During the Year, the Group, being a caring landlord, granted temporary rental reliefs to certain tenants in both Hong Kong and Mainland China, and these reliefs would not have significant financial impacts on the Group.

Property Development

Given the faster resumption of economy in Mainland China from the devastation of the pandemic, the Group is cautiously optimistic on the sales of residential units of its Central Square in the year onwards as Central Square is located in one of the prime residential areas and has the advantages of direct accessibility to the subway and a robust pedestrian street anchored by restaurants and retail stores.

Upon preliminary works of the second phase of Central Square which is separated by a street and directly facing to the first phase will start upon settlement with several recalcitrant inhabitants. Second phase is also a mixed development project, and its positioning will be thematically in line with the first phase.

The Group will continue to study conversion of usage of some other land bank assets from industrial to commercial in Nanjing and Tianjin for the purposes of increasing both the land value and return from development of such land after conversion. The Group's strategy in the development of large scale property projects remains unchanged.

Agriculture and Forestry

The Group currently has long-term leases of over 517,000 mu (approximately 344 million sq.m.) of woodland, farmland, fishpond and lake space in various major provinces in Mainland China, and is focusing on the plantation of fruits and crops such as apples, winter dates, peaches, pears and corns. The Group will continue to explore plantation opportunities of high profit margin species and focus on improving harvest, sales distribution channels, utilisation of resources and cost control for improving the operating results of this segment.

PRINCIPAL RISKS AND UNCERTAINTIES

The following section lists out the key risks and uncertainties facing by the Group. It is a non-exhaustive list and there may be other risks and uncertainties additional to the key risk areas outlined below.

Risks relating to Trading and Manufacturing

Macroeconomic environment

The Group designs and manufactures a wide variety of toys, shoes and other leather products. Our customers sell such products worldwide to their consumers. The Group's financial performance, therefore, hinges on the level of discretionary consumer spending in the markets in which our products are eventually sold. Recessions, credit crises and other economic downturns can result in decrease in consumers' disposable income and lower consumption confidence. These factors would adversely affect orders from our customers.

Cost increase

Cost increases, whether resulting from rising costs of materials, transportation, minimum wage legislations in Mainland China or compliance with existing or future regulatory requirements could impact the profit margins realised by the Group on the sale of its products. In addition, the Group could be the subject of future product liability lawsuits or product recalls, which could harm its business.

Risks relating to Property Investment and Development

Risks associated with the property market in Mainland China

A significant part of the Group's property portfolio is located in Mainland China and is therefore subject to the risks associated with Mainland China's property market. The Group's operations in Mainland China may also be exposed to the risks of policy change, RMB exchange rate change, interest rate change, demand-supply imbalance, and the overall economic conditions, which pose adverse impact on the Group's business, financial condition or results of operations.

Risks associated with the property market in Hong Kong

The state of Hong Kong's economy and property market, legislative and regulatory changes, government policies and political conditions would affect the Group's revenue derived from the Group's property portfolio in Hong Kong. The government may introduce property cooling measures from time to time. Rental levels in Hong Kong are subject to competition arising from supply in the primary sector.

Risks relating to Agriculture and Forestry

Risk associated with natural disasters or adverse weather conditions

The Group's agriculture and forestry operations are susceptible to natural disasters and adverse weather conditions such as droughts, floods and earthquakes, and environmental hazards. The occurrence of any of the above events in or in close proximity to our cultivation area may cause a reduction or delay in our production output, which may adversely affect the Group's business and operating performance.

The Group will conduct regular reviews and focus on mitigating the risks exposure of each business unit.

UPDATE ON LITIGATION PROCEEDINGS

(i) Against Nanjing Skytech Co., Limited and Others

Case on infringement of copyrights

Reference is made to the announcement made by the Company dated 5 December 2016 in relation to the litigation in the People's Republic of China ("China") concerning infringement of copyrights of certain computer software belonging to Nanjing South China Skytech Technology Co., Limited (南京南華擎天資訊科技有限公司) ("South China Skytech").

On 31 January 2000, Janful Limited, an indirect wholly-owned subsidiary of the Company, and Nanjing Skytech Co., Limited (南京擎天科技有限公司) ("Nanjing Skytech") entered into a joint venture agreement to set up South China Skytech to engage, mainly, in software development, research, sales and after-sales service, system integration and other related electronic business.

In or about 2003, business of South China Skytech further deteriorated and suffered serious loss. Upon investigations, it was found that Nanjing Skytech illegally transferred all the computer software belonging to South China Skytech ("Computer Software") for its own use and registered the ownership of the copyrights of the Computer Software under its own name or under the name of Nanjing Skytech Software Technology Co., Limited (南京擎天軟件科技有限公司) ("Skytech Software"), rendering South China Skytech unable to continue its business. On the other hand, the assets and profits of Nanjing Skytech continued to increase and eventually Sinosoft Technology Group Limited (中國擎天軟件科技集團有限公司) ("Sinosoft"), the parent company of Nanjing Skytech, was listed on the Stock Exchange of Hong Kong in 2013 (stock code: 1297).

South China Skytech commenced legal proceedings in Jiangsu High People's Court ("Jiangsu High Court") against, inter alia, Nanjing Skytech seeking the Jiangsu High Court to determine that the ownership of the copyrights of a total of 31 pieces of Computer Software belong to South China Skytech; and that Nanjing Skytech pay South China Skytech damages in the sum of RMB210.4 million (to be assessed) for infringement of copyrights.

On 28 November 2016, the Jiangsu High Court delivered its first instance judgment on the Computer Software copyrights ownership. The Jiangsu High Court determined that during the period from March 2000 to March 2003, Nanjing Skytech basically had no employees. Not only that, before 2002, Nanjing Skytech had no fixed assets and therefore it did not have the necessary means to develop any software. The development of the Computer Software was mainly relied on South China Skytech's manpower and physical technology capability. The Jiangsu High Court also determined that Nanjing Skytech and Skytech Software had exploited South China Skytech's physical technology capability to develop the Computer Software and registered the ownership of the copyrights of the Computer Software under their respective names. Such actions did not comply with the basic principles of copyright laws. The ownership of the copyrights of a total of 13 pieces of Computer Software was held to belong to South China Skytech.

The Company wishes to give an update that all parties in the said infringement of copyrights case have appealed to the Supreme People's Court of China. The Supreme People's Court of China issued a ruling on 26 October 2018 which revoked the first-instance judgment and sent the case back to the Jiangsu High Court for retrial.

After holding a pre-trial conference on 31 July 2019, the Jiangsu High Court conducted a hearing in relation to the retrial of the case on 22 October 2019. Nanjing Skytech challenged the presiding judge at the beginning of the trial. The Jiangsu High Court rejected the request of challenge for untenable reason, and held that during more than two-and-a-half months of the pre-trial proceedings prior to the establishment of the trial, the two parties have completed numerous written exchanges of cross-examination and arguments, and Nanjing Skytech had never challenged the presiding judge, but did so at the time of the trial, which was an open violation of good faith lawsuit. The court conducted an online trial of the case on 1 March 2022 and the judge indicated that an onsite trial would be arranged once the pandemic situation is relatively stable.

The Company considers that Nanjing Skytech has seriously violated the principle of good faith, and was actually a shell company, basically with no employees, no office base and no capital. It had no means whatsoever to develop any computer software. Therefore, the Company considers that the remaining 18 pieces of Computer Software were also developed using the manpower and physical technology capabilities of South China Skytech and therefore the ownership of the copyrights of the remaining Computer Software should also belong to South China Skytech. The Company will explore every possible course of action to claim for the ownership of the remaining 31 pieces of Computer Software.

In addition, it is noted that Sinosoft had disclosed in its prospectus dated 27 June 2013 of its alleged ownership of certain computer software. The Company considers that most of the computer software was also subsequently developed from the Computer Software belonging to South China Skytech. The Company will explore every possible course of action to claim against Nanjing Skytech and/or Sinosoft for infringement of copyrights and to seek an injunction prohibiting Nanjing Skytech and/or Sinosoft to continue to sell and/or use such computer software.

Case on liability dispute related to damaging the interests of the Company

Reference is made to the announcement of the Company dated 20 July 2016 in relation to the final judgment made by the Jiangsu High Court against Nanjing Skytech, Ms. Xin Yingmei, Mr. Wang Xiaogang and Mr. Zhang Hong (the "Defendants") who had breached the non-competition obligation under China's Company Law and were liable to pay all the gain therefrom to South China Skytech as follows:

1. Ms. Xin Yingmei, Mr. Wang Xiaogang, Mr. Zhang Hong and Nanjing Skytech shall pay RMB22,533,377.09 to South China Skytech;

2. Ms. Xin Yingmei shall pay RMB4,392,329.95 to South China Skytech. Mr. Wang Xiaogang, Mr. Zhang Hong and Nanjing Skytech shall be jointly liable to the payment;

3. Mr. Wang Xiaogang shall pay RMB691,859.56 to South China Skytech. Ms. Xin Yingmei, Mr. Zhang Hong and Nanjing Skytech shall be jointly liable to the payment; and

4. Mr. Zhang Hong shall pay RMB288,274.85 to South China Skytech. Ms. Xin Yingmei, Mr. Wang Xiaogang and Nanjing Skytech shall be jointly liable to the payment.

The Jiangsu Immediate People's Court had frozen a bank account held by Nanjing Skytech with a total sum of approximately RMB28 million in February 2017. As all parties have appealed to the Supreme People's Court of China for retrial, the Supreme Court remitted the case back to the Jiangsu High Court for retrial on 8 April 2019. Jiangsu High Court accepted the case on 13 June 2019. Subsequent to the hearing of the case on 21 May 2020, the Jiangsu High Court made mediation arrangements on 1 April 2021 for the two parties to resolve the matter but unsuccessful, and the case is pending for judgement.

Case on liability dispute related to damaging the interests of shareholders

To protect its interest, Janful Limited, as the controlling shareholder of South China Skytech, filed a lawsuit against Ms. Xin Yingmei, Mr. Wang Xiaogang and Mr. Zhang Hong on the ground of damaging the interests of shareholders, demanding compensation of approximately RMB53.4 million (to be assessed). The court accepted the case on 15 January 2021. Janful Limited decided to withdraw the lawsuit in July 2021 after considering the relevant factors comprehensively.

(ii) Development right of a piece of land situate at Tianjin Binhai New District

In April 1993, World Right Investments Limited (環威投資有限公司) ("World Right"), an indirect wholly-owned subsidiary of the Company, and Tianjin Tanggu Property Development Company Limited (天津塘沽房地產開發股份有限公司) (currently known as Binhai Investment Group Holding Company Limited (濱海投資集團股份有限公司) ("Binhai Investment Group")) formed a joint venture company in China known as Tianjin South China Property Development Company Limited (天津南華房地產開發有限公司) ("South China Property"). World Right holds 51% equity interest in South China Property.

In June 1993, World Right and Binhai Investment Group entered into a joint development agreement (the "Development Agreement"). It was agreed under the Development Agreement, inter alia, that World Right and Binhai Investment Group shall jointly develop a piece of land situated at Tianjin Binhai New District with an area about 500,000 sq.m. (the "Involved Land") and World Right shall pay RMB10.4 million in cash to increase the capital investment in South China Property. World Right duly paid the capital investment of RMB10.4 million which had been used for formation of the Involved Land. However, Binhai Investment Group failed to perform the Development Agreement, did not recognise that World Right and Binhai Investment Group had joint right to develop the Involved Land, and maliciously transferred the Involved Land to Tianjin Cheng Tou Binhai Property Company Limited (天津城投濱海房地產經營有限公司) ("Cheng Tou Binhai"), a company invested in and established by it and the government.

In 2013, World Right commenced legal proceedings in Tianjin High People's Court ("Tianjin High Court") against Binhai Investment Group claiming for specific performance of the Development Agreement. Following the first trial, second trial and retrial of the case, the Supreme People's Court made the final judgment in August 2020, rejecting the claims of World Right, and noting that World Right may claim its rights against Binhai Investment Group for breach of contract in another case. Accordingly, after consulting the counsel team, World Right filed the litigation for breach of contract in January 2021, demanding that Binhai Investment Group shall assume the liability for damages in the amount of approximately RMB166 million (to be assessed), and that Cheng Tou Binhai shall assume joint and several liability thereof. The trial of the case was concluded on 28 June 2021, and World Right withdrew the lawsuit in August 2021 after considering the relevant factors comprehensively.

(iii) Case on arbitration related to Nansha land

In March 2021, Brightson Investments Limited, an indirect wholly-owned subsidiary of the Company, filed an application for arbitration with China International Economic and Trade Arbitration Commission ("CIETAC") in relation to failure of the Villagers' Committee of Datang Village, Huangge Town, Nansha District, Guangzhou ("Datang Villagers" Committee") to transfer the land under agreement to it, demanding that Datang Villagers' Committee compensate for the losses in accordance with the law. CIETAC has established an arbitral tribunal in July 2021, with hearing notification pending.

FINAL DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended 31 December 2021 (2020: nil).

CORPORATE GOVERNANCE CODE

Throughout the year ended 31 December 2021, the Company had complied with all the applicable code provisions as set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") in force during the year, with the exception of code provisions E.1.2 and A.6.7 of the CG Code. According to the code provisions E.1.2 and A.6.7 of the CG Code, the chairman of the board and independent non-executive directors and non-executive directors should attend the annual general meeting. Mr. Ng Hung Sang, the Chairman of the Board, Mr. Ng Yuk Yeung Paul, the Executive Vice Chairman and Co-Chief Executive Officer, both of the Executive Directors, Mr. Ng Yuk Fung Peter and Mr. David Michael Norman, both of the Non-executive Directors, and Mr. Chiu Sin Chun and Mr. Kam Yiu Shing Tony, both of the Independent Non-executive Directors, were unable to attend the annual general meeting of the Company held on 22 June 2021 due to their business engagements.

PURCHASE, SALE OR REDEMPTION OF THE LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2021.

AUDIT COMMITTEE

The Company has established an Audit Committee with written terms of reference in compliance with the Listing Rules. The Audit Committee presently comprises five Independent Non-executive Directors, namely Mr. Kam Yiu Shing Tony (Chairman of the Audit Committee), Mr. Chiu Sin Chun, Mrs. Tse Wong Siu Yin Elizabeth, Ms. Pong Scarlett Oi Lan, BBS, J.P. and Mr. Wong Chun Tat, J.P. and a Non-executive Director, Mr. David Michael Norman.

The Group's annual results for the year ended 31 December 2021 have been reviewed by the Audit Committee, which was of the opinion that the preparation of such annual results complied with the applicable accounting standards and requirements and that adequate disclosures were made.

SCOPE OF WORK OF KPMG

The financial figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2021 as set out in the preliminary announcement have been compared by the Group's auditor, KPMG, Certified Public Accountants, to the amounts set out in the Group's draft consolidated financial statements for the year and the amounts were found to be in agreement. The work performed by KPMG in this respect did not constitute an audit, review or other assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by the auditor.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the "Model Code for Securities Transactions by Directors of Listed Issuers" (the "Model Code") set out in Appendix 10 to the Listing Rules as its code of conduct for dealings in securities of the Company by Directors. Specific enquiries have been made of all Directors who confirmed that they had complied with the required standards as set out in the Model Code throughout the year ended 31 December 2021.

ANNUAL GENERAL MEETING

The Company's 2022 annual general meeting will be held on Tuesday, 21 June 2022 and the notice will be published and issued to shareholders of the Company in due course.

PUBLICATION OF ANNUAL RESULTS AND 2021 ANNUAL REPORT

This announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.scholding.com). The annual report of the Company for the year ended 31 December 2021 will be dispatched to the shareholders of the Company and made available on the same websites in due course.

By Order of the Board
South China Holdings Company Limited
南華集團控股有限公司
Ng Hung Sang
Chairman and Executive Director

Hong Kong, 22 March 2022

As at the date of this announcement, the Directors are: (1) Mr. Ng Hung Sang, Ms. Cheung Choi Ngor and Mr. Ng Yuk Yeung Paul as Executive Directors; (2) Ms. Ng Yuk Mui Jessica, Mr. Ng Yuk Fung Peter, Mr. David Michael Norman and Ms. Li Yuen Yu Alice as Non-executive Directors; and (3) Mr. Chiu Sin Chun, Mrs. Tse Wong Siu Yin Elizabeth, Mr. Kam Yiu Shing Tony, Ms. Pong Scarlett Oi Lan, BBS, J.P. and Mr. Wong Chun Tat, J.P. as Independent Non-executive Directors.